

## Morgan Stanley Investment Funds

# Indian Equity Fund

**EMERGING MARKETS EQUITY TEAM**

### Performance Review

In the one month period ending 31 October 2023, the Fund's I shares returned -3.21% (net of fees)<sup>1</sup>, while the benchmark returned -2.97%.

Real estate and consumer discretionary were the best performing sectors in the index in October, while industrials and health care were the worst performing. Our stock selection in industrials, health care and materials added to the Fund's performance, while stock selection in financials, consumer discretionary and real estate were key detractors. Our overweight in real estate and consumer discretionary and underweight in utilities were the largest contributors to performance. Our underweights in consumer staples and overweight in financials were key detractors allocation-wise.

### Market Review

The MSCI India Index (down 3%) outperformed the MSCI Emerging Markets Index (down 4%) in October in U.S. dollar terms, finishing 10th among 24 emerging market countries, down from sixth last month. The S&P BSE Sensex (down 3%) underperformed the S&P BSE SmallCap Index (down 1.7%) but outperformed the S&P BSE Midcap Index (down 3.4%) in October, while the MSCI India Growth Index marginally outperformed the MSCI India Value Index.

Total institutional flows were net positive for the 16th consecutive month. Foreign portfolio investors (FPI) sold stocks for the second month in running, worth \$2.6 billion. FPI remained buyers in debt markets, with inflows of \$767 million. Domestic institutions (mutual funds and insurance) remained buyers in October. Domestic mutual funds remained buyers at \$1.7 billion (up to 18 October 2023) whereas domestic insurance institutions bought stocks worth \$49 million (up to 18 October 2023). Subsequently, total institutional flows remained net positive for the 16th consecutive month in October, with inflows of \$34 billion.

The rupee depreciated by 0.2% month-on-month versus the U.S. dollar and depreciated 0.4% versus the euro during the month.

In October, oil prices fell by 7.9% month-on-month in rupee terms.

### Portfolio Activity

We exited positions in Sobha and SBI Cards in the month. SBI Cards' results disappointed on the credit cost side, and normalization on the credit cost side is not panning out as guided. In fact, the normalization trajectory has been revised a few times now, which has undermined confidence. Exiting this position helped to reduce our exposure to unsecured credit in lower ticket sizes, which is where some of the challenges have started emerging (based mostly on anecdotal evidence).

Sobha has outperformed the MSCI India Index by 20% year-to-date. Given a hiring slowdown in IT services, we expect weakness in the Bangalore real estate market in the near to medium term.

### Strategy and Outlook

Macro indicators improved, led by strong growth in government spending, direct tax and Goods and Services Tax (GST) collections. Consumer price index (CPI) inflation returned to the Reserve Bank of India's (RBI) target band and the trade deficit narrowed. Overall consumption activity weakened for the month, while industrial indicators continue to be the mainstay of growth with GST collections rising 13.4% year-on-year in September. Most manufacturing indicators (steel production, coal production, crude and natural gas production, engineering exports) remained healthy. The proxies for road construction and electricity generation were among the other positives. Weak commercial vehicle registrations, a decline in tractor sales and moderation in logistics indicators (goods movement by ports, air and E-way bills) were the worries on the consumption front.

On the macro stability front, the headline CPI cooled off to a three-month low of 5% in September from 6.8% in August. The number is within the RBI's target band of 2% to 6%. Food inflation (about 6% of the index weight) decelerated to 6.6% from 9.9% in the previous month. Fuel inflation contracted a bit by 0.1% in September from 4.3% in August to reach the lowest since December. Core CPI inflation moderated to 43-month low of 4.6% from around 4.8% in August.

The wholesale price index (WPI) for September declined at a slower pace of 0.3% in September from -0.5% in August. Food inflation decelerated to 1.2% in September from 4.8% in August, while fuel inflation contracted by 3.3% from 6% in August. Core WPI inflation contracted by 1.2% versus 2.1% in August.

We continue to monitor global cues on headline and core U.S. inflation that result in an increasingly changing commentary on policy rates. In a unanimous vote, the RBI's Monetary Policy Committee kept rates unchanged in October for the fourth consecutive

<sup>1</sup> Source: Morgan Stanley Investment Management Limited. Data as of 31 October 2023.

meeting. We draw confidence from the RBI's nimble approach to tackling inflation and the growth trajectory, which should help the economy in the medium to long term. We continue to look for relative growth opportunities in our portfolio in the current volatile environment.

**For further information, please contact your Morgan Stanley Investment Management representative.**

## Fund Facts

Launch date	30 November 2006
Base currency	U.S. dollars
Benchmark	MSCI India (Net) Index

## Calendar Year Returns (%)

Past performance is not a reliable indicator of future results.

	YTD	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Class I Shares	9.44	-9.91	32.41	8.79	1.90	-20.24	41.65	2.69	-0.30	44.34	-7.09
MSCI India (Net) Index	4.75	-7.95	26.23	15.55	7.58	-7.30	38.76	-14.3	-6.12	23.87	-3.83

All performance data is calculated NAV to NAV, net of fees, and does not take account of commissions and costs incurred on the issue and redemption of units. The sources for all performance and Index data is Morgan Stanley Investment Management. **Please visit our website [www.morganstanley.com/im](http://www.morganstanley.com/im) to see the latest performance returns for the fund's other share classes.**

## Share Class I Risk and Reward Profile

The risk and reward category shown is based on historic data.

- Historic figures are only a guide and may not be a reliable indicator of what may happen in the future.
- As such this category may change in the future.
- The higher the category, the greater the potential reward, but also the greater the risk of losing the investment. Category 1 does not indicate a risk free investment.
- The fund is in this category because it invests in shares of Indian companies and the fund's simulated and/or realised return has experienced high rises and falls historically.
- The fund may be impacted by movements in the exchange rates between the fund's currency and the currencies of the fund's investments.

This rating does not take into account other risk factors which should be considered before investing, these include:

- The fund relies on other parties to fulfill certain services, investments or transactions. If these parties become insolvent, it may expose the fund to financial loss.
- Sustainability factors can pose risks to investments, for example: impact asset values, increased operational costs.

- There may be an insufficient number of buyers or sellers which may affect the funds ability to buy or sell securities.
- There are increased risks of investing in emerging markets as political, legal and operational systems may be less developed than in developed markets.
- Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations. The value of investments and the income from them can go down as well as up and investors may lose all or a substantial portion of his or her investment.
- The value of the investments and the income from them will vary and there can be no assurance that the Fund will achieve its investment objectives.
- Investments may be in a variety of currencies and therefore changes in rates of exchange between currencies may cause the value of investments to decrease or increase. Furthermore, the value of investments may be adversely affected by fluctuations in exchange rates between the investor's reference currency and the base currency of the investments.

Please refer to the Prospectus for full risk disclosures. All data as of 31 October 2023 and subject to change daily.

Applications for shares in the Fund should not be made without first consulting the current Prospectus and the Key Information Document ("KID") or Key Investor Information Document ("KIID"), which are available in English and in the official language of your local jurisdiction at [morganstanleyinvestmentfunds.com](http://morganstanleyinvestmentfunds.com) or free of charge from the Registered Office of Morgan Stanley Investment Funds, European Bank and Business Centre, 6B route de Trèves, L-2633 Senningerberg, R.C.S. Luxembourg B 29 192.

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## INDEX INFORMATION

The **MSCI India Index** is designed to measure the performance of the large and mid cap segments of the Indian market.

The **MSCI Emerging Markets Net Index** is a free float-adjusted market capitalization weighted index that is designed to measure equity market performance of emerging markets. The term "free float" represents the portion of shares outstanding that are deemed to be available for purchase in the public equity markets by investors. The MSCI Emerging Markets Index currently consists of 24 emerging-market country indices. The performance of the index is listed in U.S. dollars and assumes reinvestment of net dividends. The index does not include any expenses, fees or sales charges, which would lower performance.

The **S&P BSE SENSEX (S&P Bombay Stock Exchange Sensitive Index)** is a free-float market-weighted stock market index of 30 well-established and financially sound companies listed on

Bombay Stock Exchange.

The **S&P BSE MidCap Index** measures the mid-cap segment of India's stock market.

The **S&P BSE SmallCap Index** measures the small-cap segment of India's stock market.

The **MSCI India Growth Index** captures large- and mid-cap securities exhibiting overall growth style characteristics in India, as defined by long-term forward earnings per share (EPS) growth rate, short-term forward EPS growth rate, current internal growth rate and long-term historical EPS growth trend and long-term historical sales per share growth trend.

The **MSCI India Value Index** captures large- and mid-cap Indian securities exhibiting overall value style characteristics, as defined by book value to price, 12-month forward earnings to price and dividend yield.

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